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No. 01-172

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

BIOMET, INC.,

Petitioner,

v.

DR. RAYMOND G. TRONZO,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF

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REPLY BRIEF

This case presents the critical federal question of whether a defendant must raise a hypothetical constitutional challenge to a punitive damages award—based on an unknown set of facts that might exist after a remand—or be foreclosed by the mandate rule from challenging the award once the facts become concrete. This is what the Federal Circuit held in denying petitioner Biomet, Inc. ("Biomet") the right to challenge the constitutionality of a $20 million punitive damages award that was 38,000 times the $520 in compensatory damages awarded on remand. The new rule created by the Federal Circuit conflicts with the decisions of this Court and other courts of appeals; violates established principles regarding appellate mandates; forces appellate lawyers to devote scarce brief space to hypothetical arguments that courts of appeals cannot resolve; and undermines the important and constitutionally necessary function of judicial review of punitive damages awards mandated by this Court's decisions in *Cooper Industries, Inc.* v. *Leatherman Tool Group, Inc.*, 121 S. Ct. 1678 (2001), and *Honda Motor Co.* v. *Oberg*, 512 U.S. 415 (1994). Pet. 11-27; DRI Br. 3-9; Past Presidents Br. 4-15; Chamber of Commerce Br. 1-5.

Respondent Tronzo's brief in opposition is replete with distortions of the facts, the law, the proceedings below, and petitioner's argument in an attempt to muddy the issue presented by this petition.[1] Tronzo presents no reasons for

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[1] Particularly outrageous is Tronzo's argument—irrelevant to the question presented and intended only to mislead the Court about the claims at issue here—that the $20 million in punitive damages was a proper punishment for a claimed conspiracy between Biomet and Drs. Mallory and Head to defraud the Food & Drug Administration that allegedly yielded $88 million in "ill-gotten" profits and put patients at risk. Opp. 4-6, 23. The punitive damages were predicated on two economic torts where the *only* evidence of harm was Tronzo's $520 patent prosecution costs. The fraud claim was that Biomet fraudulently induced Tronzo to secure a patent by stating in a November 1986 letter that if a

denying certiorari. Contrary to respondent's claims, Biomet could not and did not waive any constitutional challenge to the final judgment on remand. Respondent fails to distinguish the precedent of this Court and various courts of appeal with which the decision below conflicts. The state law arguments proffered are spurious. Immediate resolution of this question is especially critical given that the Federal Circuit's illogical mandate rule will now govern district courts throughout the country that resolve pendent state law claims in patent cases.

1. Respondent argues that the Federal Circuit did not state a categorical rule foreclosing due process challenges absent a hypothetical claim on the first appeal, and seeks to recast the decision below as merely a fact-bound ruling based on Biomet's tactical waivers. Opp. 14. But this argument is unavailing because, under the precedents of this Court, Biomet neither did waive nor *could have waived* its right to

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patent would protect both the Mallory-Head cup and his cup, "we would be interested in working out an arrangement with you." Tr.I A10546. The breach of confidential relationship claim was that Biomet failed to divulge certain facts to Tronzo and disclosed certain proprietary information provided by Tronzo to Mallory and Head. Tr.I App. 144-52. Tronzo's claimed confidential ideas were not the subject of the alleged false statements to the FDA, and (because his own cup was obvious from the prior art and very different from the Mallory-Head cup) they had no economic value, which is why Tronzo was awarded no compensatory damages on remand other than patent prosecution costs.

Tronzo's renewed attempt to link these torts to Biomet's $88 million in profits (which, incidentally, relate to the entire Mallory-Head hip replacement system, not just the cup) is contrary to the Federal Circuit's repeated holding that "he cannot establish the necessary nexus between his tort injuries and Biomet's profits from sales of the Mallory/Head device." Pet. App. 6a. Finally, the district court ruled that there was absolutely no evidence that Biomet's conduct ever put any patient at risk. *Id.* at 22a. The state law claims on which punitive damages were awarded were insubstantial, *cf.* Tr.II App. 2087 (district judge's statement that "[he] would have ruled for Biomet had [he] been the trier of fact"), and were premised on evidence of only trivial economic harm.

raise a constitutional challenge based on a judgment that had not yet been finally rendered.

A lower court on remand "cannot reconsider questions that the mandate has *laid at rest*." *FCC* v. *Pottsville Broad. Co.*, 309 U.S. 134, 140 (1940) (emphasis added). "While a mandate is controlling as to matters within its compass, on the remand a lower court is free as to other issues." *Sprague* v. *Ticonic Nat'l Bank*, 307 U.S. 161, 168 (1939); *Ex parte Union Steamboat Co.*, 178 U.S. 317, 319 (1900) (the "inferior court is justified in considering and deciding any question left open by the mandate and opinion of this court"). All matters not expressly decided on appeal are open unless their "disposition . . . by the mandate . . . was *necessarily* implied" in the claims brought and judgment rendered. *Sprague*, 307 U.S. at 168 (emphasis added). Only "[w]hatever was before the Court, and is disposed of, is considered as finally settled." *Sibbald* v. *United States*, 37 U.S. 488, 492 (1838).

Contingent constitutional claims that depend on future proceedings simply cannot be "necessarily" decided by implication in the prior appellate judgment, and thus they cannot be waived. This is the express rule of *Sprague*, which held that the mandate rule did not preclude the determination of equitable costs because such costs "are contingent upon the exigencies of equitable litigation, the final disposition of which in its entire process including appeal places such a claim in much better perspective than it would have at an earlier stage." 307 U.S. at 168. Such claims are thus not "implied[ly] waiv[ed]" if not raised in the first appeal. *Id.* Respondent attempts to distinguish the holding in *Sprague* on the ground that equitable costs are collateral, but that distinction is illusory. As the plaintiff in *Sprague* could not have asserted her claim for equitable costs until future proceedings were decided, so too could petitioner here not

raise an attack on the constitutionality of the judgment until damages were finally resolved on remand.[2]

The Federal Circuit could not have determined in *Tronzo I* whether the $20 million punitive award was grossly excessive in relation to a compensatory award that had not yet been rendered. The issue of whether a $20 million award was grossly excessive for the torts of fraud and breach of confidential relationship resulting in $520 damages was not "before the Court, and . . . disposed of" in *Tronzo I*, and thus was not "finally settled" by that decision. *Sibbald*, 37 U.S. at 492. The categorical rule established by the Federal Circuit that collapses contingent issues that depend on future proceedings into its initial appellate mandate conflicts with this Court's precedent, as well as decisions of the courts of appeals that are faithful to *Sprague*.[3]

Respondent stresses that Biomet could have raised a *BMW* challenge in *Tronzo I*. Opp. 17. That is true, no matter the weakness of the claim. Indeed, there is no minimum ratio or other condition precedent for a constitutional attack under the multifactor "grossly excessive" test of *BMW*, and such a claim can always be raised to attack *any* punitive damages award. But the only *BMW* claim that Biomet could have raised (and that the Federal Circuit could have decided) in

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[2] Respondent's reliance, Opp. 18 n.11, on cases involving "contract waiver" in which a party surrenders future litigation rights (*D.H. Overmeyer Co.* v. *Frick Co.*, 405 U.S. 174, 187 (1972); *Rodriguez de Quijas* v. *Shearson/American Express, Inc.*, 490 U.S. 477, 480-83 (1989)) demonstrates the lack of support for his opposition to this petition. The issue here is not whether Biomet could have bargained away its right to raise a *BMW* challenge, but whether a contingent and unripe challenge was decided by necessary implication in the *Tronzo I* judgment.

[3] *See, e.g.*, *Biggins* v. *Hazen Paper Co.*, 111 F.3d 205, 209 (1st Cir. 1997) ("mandates require respect for what the higher court decided, not for what it did not decide"); *Caldwell* v. *Puget Sound Elec. Apprenticeship & Training Trust*, 824 F.2d 765, 767 (9th Cir. 1987) (relief "need only be consistent with the mandate, not specifically mentioned in the opinion").

Tronzo I was that a $20 million punitive damages award was excessive in relation to a finding of liability for the torts of fraud and breach of confidential relationship resulting in $7.1 million in damages, a ratio of 2.8 to 1. Biomet has never disputed that it abandoned that claim in *Tronzo I*.[4]

Biomet's decision not to raise a *BMW* claim in challenging the *original* judgment entered by the district court did not preclude it from raising the distinct constitutional claim that the punitive award was unconstitutional in relation to the *amended* judgment on remand. The *BMW* "grossly excessive" standard is inherently relative: the constitutionality of an award is determined in relation to (1) the reprehensibility of conduct; (2) the ratio of punishment to harm; and (3) legislative sanctions for comparable misconduct. *BMW of N. Am., Inc.* v. *Gore*, 517 U.S. 559, 574-75 (1996). A punitive damages award may be constitutional in relation to the original judgment, but become unconstitutional and grossly excessive on remand if any of the three predicate *BMW* factors is altered—if, for example, certain alternative bases of liability were overturned (which would affect the reprehensibility and comparable-sanction factors), or if compensatory damages were lowered, as here (which would affect the ratio and comparable-sanction factors). It is a new constitutional claim that arises on remand, which by definition could not have been "finally settled" in the original appeal.[5]

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[4] Because Biomet has never contended that it was *legally* precluded from raising a *BMW* challenge when the ratio was 2.8 to 1, there is no basis for respondent's charge, Opp. 23, that Biomet has taken a position inconsistent with its defense of a judgment of the Third Circuit (on very different facts) that a punitive award with a 1-to-1 ratio was grossly excessive. *See Inter Med. Supplies, Ltd.* v. *EBI Med. Sys., Inc.*, 181 F.3d 446, 467-68 (3d Cir. 1999), *cert. denied*, 528 U.S. 1076 (2000).

[5] Respondent wrongly claims that Biomet's argument "elevates the ratio guidepost in the *BMW* constitutional excessiveness analysis to *dispositive* status." Opp. 21. Although it was the ratio that was dramatically altered in this case, vacatur as to liability or damages that

Indeed, the logic of respondent's position underscores the error of the decision below and the importance of this Court's review. Under the decision below, because a *BMW* challenge *can* always be raised against a punitive damages award (no matter how meritless), it *must* be raised in the first appeal in order to avoid waiver. If this Court lets the decision below stand, then every defendant in every Federal Circuit appeal involving a punitive damages award will necessarily have to include even baseless *BMW* claims solely to preserve its rights on remand. This Court should not countenance such a wasteful rule, which is entirely contrary to the rationalization of the law of punitive damages that appellate review is intended to accomplish. See *Cooper*, 121 S. Ct. at 1685.

3. The Federal Circuit held that Biomet could have raised a hypothetical challenge to the punitive damages in light of its estimate of the compensatory damages that might be awarded on remand: "Applying [the *BMW*] guideposts, . . . Biomet could have asserted that, *if* the compensatory damages award is lowered, constitutional requirements mandate that the punitive award be commensurately adjusted." Pet. App. 12a (emphasis added). Respondent oddly claims that the Federal Circuit's decision did not require Biomet to make hypothetical arguments. Opp. 17. But it did, creating a new rule: the defendant must "[a]pply[] [the *BMW*] guideposts" to a compensatory damages award that does not exist, but by hypothesis *may be* entered on remand.[6]

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alters any *BMW* factor can give rise to a new constitutional claim of gross excessiveness based on the interrelationship of all three guideposts.

[6] Respondent misleads the Court in claiming that Biomet "actually made" an argument in the district court "identical" to the one it should have made in *Tronzo I* when Biomet asserted in its motion for a new trial all the evidence showed in compensatory damages was "a few thousand dollars in patent costs." Opp. 16-17. The quoted passage is from Biomet's argument that the punitive award was exorbitant for the claimed conduct and that the *entire* damages verdict on the fraud count (compensatory and punitive) was against the weight of the evidence and reflected jury passion and prejudice; Biomet made no hypothetical

As demonstrated by petitioner and *amici*, this unprecedented requirement violates the Article III and prudential rules against deciding hypothetical constitutional challenges, wreaks havoc in appellate briefing, and may invite further unjustified claims of waiver if the hypotheses the defendant spins out do not anticipate the ultimate result on remand. Pet. 20-21; DRI Br. 4-8; Past Presidents Br. 12-15. Respondent does not and cannot answer the substantive arguments raised by *amici*.

More fundamentally, a hypothetical claim of this kind cannot be said to be "laid at rest," *Pottsville Broadcasting*, 309 U.S. at 140, or "finally settled," *Sibbald*, 37 U.S. at 492, on the initial appeal, and thus cannot be foreclosed by the appellate mandate. The reason is that the court of appeals could not have decided the claim even if it had been raised. The Federal Circuit in *Tronzo I* instructed the district court on remand either to determine the amount of compensatory damages sustainable on the current record or, in its discretion, "to take new evidence in this regard," which would have required impaneling a new jury. Pet. App. 46a; Pet. 13. If Biomet had made the required hypothetical *BMW* challenge, the *Tronzo I* court would have had no way of anticipating whether the ultimate compensatory award would be $100, $1 million, $10 million, or any other amount. It simply could not have rendered a decision on whether the $20 million punitive damages would be constitutional in relation to those damages and the conduct that caused them.

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argument that the punitive award on the fraud claim should have been reduced in relation to a projected reduction of the compensatory award. Similarly, there was nothing hypothetical in the argument Biomet made with respect to the separate punitive damages initially awarded on the confidential-relationship claim. Respondent's assertions notwithstanding, Opp. 6-7, Biomet's argument was that the 3.16 to 1 ratio between that award ($15 million) and the compensatory award that existed *at that time* ($4.75 million) was unlawful under state law (*i.e.*, Biomet did not compare the punitive award with what the compensatory award should have been).

In its failed effort to portray the decision below as fact-bound, respondent spills much ink on what Biomet did say, did not say, or could have said. See Opp. 8, 19. Respondent's argument is irrelevant because it is premised on the legal error that a litigant must specifically preserve a claim in order for "it to be joined with all the other issues" on remand. Opp. 19. To the contrary, the rule established by this Court is that on remand the "inferior court is justified in considering and deciding any question left open by the mandate and opinion of this court." *Ex parte Union Steamboat Co.*, 178 U.S. at 319. Even though Biomet did, in fact, put the Federal Circuit on notice that the punitive award should be vacated if the compensatory award was vacated, see Pet. 6, Biomet would not have forfeited any claim even if it had said nothing at all about the punitive award.[7]

4. Respondent attempts to cloud the issue by introducing state law arguments that are both irrelevant and wrong. They are irrelevant for two reasons. First, under *Erie R.R.* v. *Tompkins*, 304 U.S. 64 (1938), the procedural question of whether a federal jury's awards of punitive and compensatory awards are "distinct and separable" when a judgment is vacated and remanded is governed by federal law. See *Gasperini* v. *Center for Humanities, Inc.*, 518 U.S. 415, 431-32 (1996). Second, and more fundamentally, even if *arguendo* state law controlled that question and Florida alone

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[7] Not only is respondent's argument irrelevant, but his analysis of why Biomet's statements are inadequate is inconsistent with *Tronzo II* itself. Respondent claims that all Biomet had to do was (in the text of the brief, not in the footnotes) "provid[e] a further statement of what the court should order with respect to punitive damages if compensatory damages were reduced or remanded," namely, that "the constitutionality of the punitive verdict should be re-examined." Opp. 19. The Federal Circuit, however, required a full-blown constitutional analysis "[a]pplying" the *BMW* guideposts to the hypothesized value of compensatory damages on remand. Pet. App. 12a. Moreover, the statements that respondent proposes would have served no purpose because the *Tronzo I* court still could not have resolved the claim.

among the 50 states had a categorical rule that punitive damages were "wholly independent" of compensatory damages, Opp. 18, it would not affect this Court's review. Defendants have a federal constitutional right to *de novo* judicial review of whether a punitive damages award is excessive in relation to, *inter alia*, the compensatory damages awarded. *Cooper*, 121 S. Ct. at 1684-86. State law cannot operate to deprive a defendant of a federal right that could not have been asserted earlier. See *Howlett* v. *Rose*, 496 U.S. 356, 369-72 (1990). Thus, even if a punitive award would survive the reduction of the related compensatory award under Florida law and would be final for all other purposes, that would not prevent the defendant from challenging the punitive award on constitutional grounds under *BMW*.

Regardless, respondent misstates Florida law. The long-standing general rule in Florida, as elsewhere, is that reversal of even part of the compensatory award results in reversal of the corresponding punitive award. *Chillemi* v. *Rorabeck*, 629 So. 2d 206, 210 (Fla. Dist. Ct. App. 1993) (citing cases); *Adler* v. *Seligman of Fla., Inc.*, 438 So. 2d 1063, 1067 (Fla. Dist. Ct. App. 1983). Moreover, for any cause of action arising after July 1, 1986 (such as the fraud claim in this case), Florida by statute requires the trial court to determine whether the "amount" of damages awarded (punitive and compensatory) "bears a reasonable relation to the amount of damages proved and the injury suffered," Fla. Stat. §§ 768.71(2), 768.74(5)(d), and after 1987 generally caps punitive damages at three times compensatory damages. *Id.* § 768.73.[8]

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[8] The principal case upon which respondent relies is *Ault* v. *Lohr*, 538 So. 2d 454 (Fla. 1989), which revised a prior decision, *Lassiter* v. *International Union of Operating Engineers*, 349 So. 2d 622 (Fla. 1976), on which the other cases cited by respondent are based. *Ault*, however, has no bearing here. First, in *Ault*, no aspect of any compensatory award was reversed; rather, the court upheld an award of punitive damages where the jury had awarded no compensatory damages. *Ault*, 538 So. 2d

At the end of the day, this Court should not countenance the Federal Circuit's creation of an unwarranted and unworkable procedural rule that conflicts with this Court's precedents and will destroy orderly appellate judicial review of punitive damage awards. Petitioner was denied its due process right to have a court determine whether a $20 million punitive damages is grossly excessive for torts that caused $520 in harm, and respondent unjustly walked away with a massive judgment secured by the improper legal theory of compensatory damages he argued to the jury. The need for order in the appellate briefing and review of punitive damages award, and the critical importance of restoring a rational appellate mandate rule in cases within the Federal Circuit's exclusive national jurisdiction, require this Court's immediate review of the question presented.

CONCLUSION

This Court should grant the petition.

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at 455; *cf. Olmstead* v. *Miller*, 383 N.W.2d 817, 822-23 (N.D. 1986) (ruling, in a state that follows the same rule as *Ault*, that error affecting compensatory damages also requires retrial on punitive damages because "better practice and procedure require that the right to and assessment of both should be simultaneously considered by the same jury"). Second, *Ault* only applies to actions where damages are not an element of the torts (like assault and battery), not where damages are an element of the torts (like fraud and breach of confidential relationship). *Ault*, 538 So. 2d at 457 (Ehrlich, C.J., concurring); *National Aircraft Servs., Inc.* v. *Aeroserv Int'l, Inc.*, 544 So. 2d 1063, 1065 (Fla. Dist. Ct. App. 1989). Indeed, the Florida Supreme Court has held that punitive damages cannot be awarded in fraud cases without proof of compensatory damages. *First Interstate Dev. Corp.* v. *Ablanedo*, 511 So. 2d 536, 539 (Fla. 1987); *R.D.M.H., Inc.* v. *Dempsey*, 618 So. 2d 794, 795 (Fla. Dist. Ct. App. 1993).

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